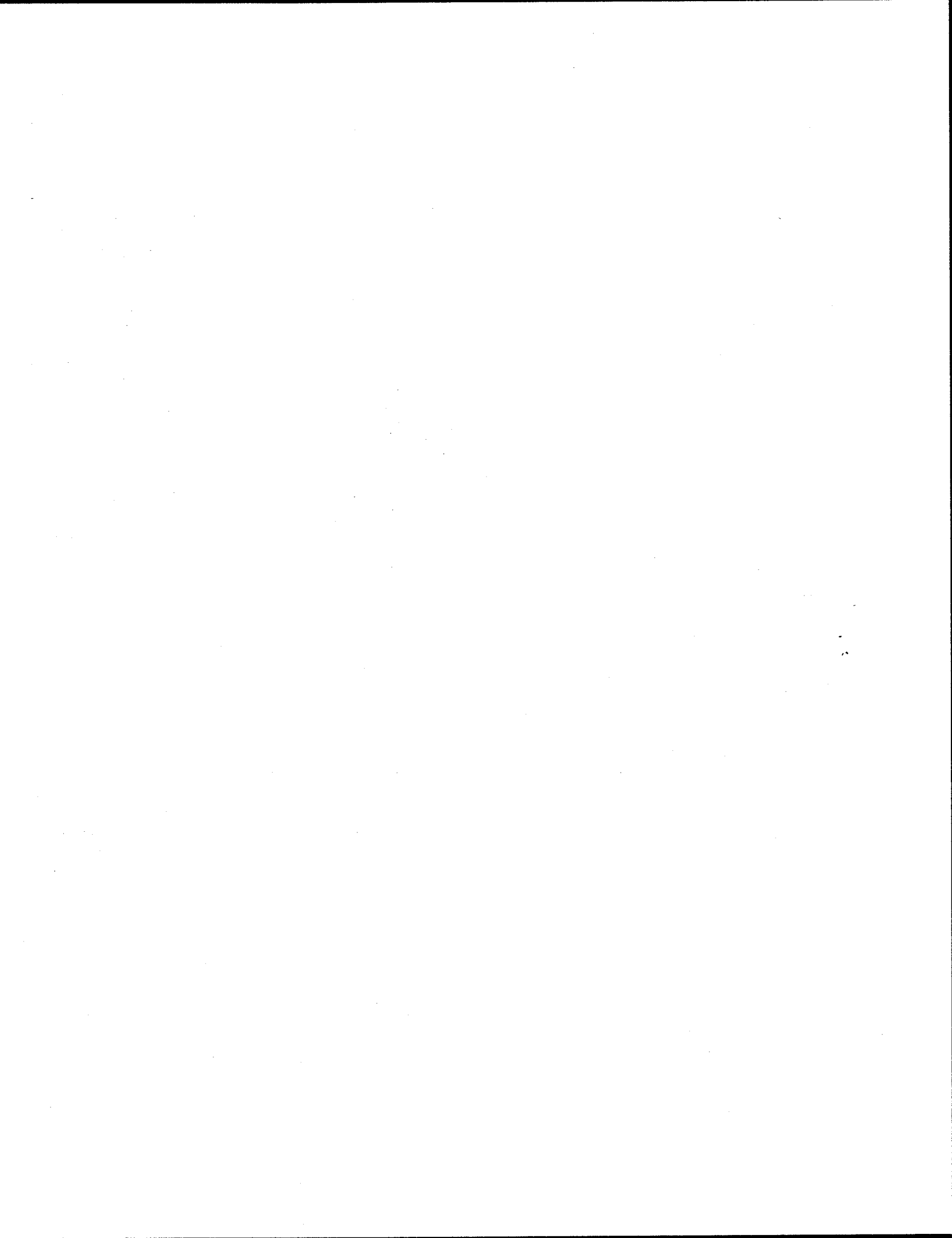


CLARE HOUSING
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012



CLARE HOUSING

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Clare Housing
Minneapolis, Minnesota

We have audited the accompanying consolidated statement of financial position of Clare Housing (a non-profit organization) as of June 30, 2012, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Clare Housing's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The prior year summarized comparative information has been derived from Clare Housing's 2011 financial statements and, in our report dated November 18, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Clare Housing as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the 2012 consolidated financial statements as a whole. The supplementary information on pages 19 through 21 is presented for purposes of additional analysis of the consolidated financial statements rather than present the financial position, changes in net assets, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Saint Paul, Minnesota
December 13, 2012

*Mahoney Ulbrich
Christiansen Russ P.A.*

CLARE HOUSING

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2012

(With Comparative Totals for 2011)

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 697,738	\$ 583,346
Reserves and escrows	1,582,625	493,440
Accounts receivable	243,415	221,325
Contributions receivable, net	137,049	44,909
Grants receivable	29,730	13,623
Sales tax rebate receivable	169,560	169,560
Prepaid expenses	127,404	142,285
Other assets, net	162,953	181,962
Property and equipment, net - Clare Housing	2,192,796	2,193,197
Property and equipment, net - Clare Apartments	4,562,501	4,683,561
Property and equipment, net - Clare Hiawatha	<u>7,394,471</u>	<u>7,584,719</u>
 Total assets	 <u>\$ 17,300,242</u>	 <u>\$ 16,311,927</u>
LIABILITIES AND NET ASSETS		
Accounts payable	\$ 37,950	\$ 41,193
Construction payable	-	542,839
Accrued expenses	214,144	171,853
Accrued interest	45,170	46,869
Deferred grant - Clare Housing	36,000	42,000
Deferred grant - Clare Hiawatha	1,247,410	1,279,395
Repayable advances	1,396,970	1,396,970
Tenant security deposits	22,263	22,360
Debt - Clare Housing	60,000	60,000
Debt - Clare Apartments	1,479,631	1,479,631
Debt - Clare Hiawatha	<u>3,405,205</u>	<u>5,531,098</u>
Total liabilities	<u>7,944,743</u>	<u>10,614,208</u>
 Unrestricted net assets:		
Controlling interest	2,867,168	2,919,954
Non-controlling interests	<u>5,897,493</u>	<u>2,280,610</u>
Total unrestricted	8,764,661	5,200,564
Temporarily restricted net assets	<u>590,838</u>	<u>497,155</u>
Total net assets	<u>9,355,499</u>	<u>5,697,719</u>
 Total liabilities and net assets	 <u>\$ 17,300,242</u>	 <u>\$ 16,311,927</u>

See accompanying notes to consolidated financial statements.

CLARE HOUSING

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	2012			2011
	Unrestricted	Temporarily restricted	Total	
Revenues and support:				
Resident fees	\$ 2,203,404	\$ -	\$ 2,203,404	\$ 2,066,009
Rental revenues	491,763	-	491,763	300,505
Contributions	205,769	183,299	389,068	267,034
Government grants and contracts	476,061	-	476,061	388,577
Amortization of deferred grants	37,985	-	37,985	6,000
Special events	-	-	-	116,945
Developer fee	300,000	-	300,000	210,000
Interest income	674	-	674	2,534
Other income	21,410	-	21,410	5,548
Net assets released from restrictions	89,616	(89,616)	-	-
Total revenues and support	3,826,682	93,683	3,920,365	3,363,152
Expenses:				
Program services:				
Foster care	1,538,990	-	1,538,990	1,525,124
Supportive services	1,891,674	-	1,891,674	1,117,708
Project Cornerstone	204,177	-	204,177	222,395
Total program services	3,634,841	-	3,634,841	2,865,227
Management and general	548,768	-	548,768	582,517
Fundraising	199,164	-	199,164	202,898
Total expenses	4,382,773	-	4,382,773	3,650,642
Change in net assets before proceeds from insurance claim and campaign contributions	(556,091)	93,683	(462,408)	(287,490)
Gain from insurance claim, net	59,087	-	59,087	-
Contributions for capital campaign	-	-	-	135,196
Change in net assets	(497,004)	93,683	(403,321)	(152,294)
Net assets, beginning of year	5,200,564	497,155	5,697,719	5,917,978
Capital contributions - non-controlling interests	4,061,101	-	4,061,101	-
Syndication costs - non-controlling interests	-	-	-	(67,965)
Net assets, end of year	<u>\$ 8,764,661</u>	<u>\$ 590,838</u>	<u>\$ 9,355,499</u>	<u>\$ 5,697,719</u>
Change in net assets attributed to:				
Controlling interest	\$ (52,786)	\$ 93,683	\$ 40,897	\$ 132,984
Non-controlling interests	(444,218)	-	(444,218)	(285,278)
Consolidated total	<u>\$ (497,004)</u>	<u>\$ 93,683</u>	<u>\$ (403,321)</u>	<u>\$ (152,294)</u>

See accompanying notes to consolidated financial statements.

CLARE HOUSING

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	2012						Total	2011
	Program Services							
	Foster care	Supportive services	Project Cornerstone	Total program services	Management and general	Fund-raising		
Salaries	\$ 974,646	\$ 563,174	\$ 19,585	\$ 1,537,405	\$ 215,528	\$ 82,550	\$ 1,855,483	
Payroll taxes	79,344	45,680	1,603	126,627	17,431	6,896	150,954	
Employee benefits	133,759	72,089	299	206,147	18,344	4,788	229,479	
Total salaries and benefits	1,187,749	680,943	21,487	1,890,179	251,503	94,234	2,088,905	
Program expenses	103,784	28,576	19	132,379	-	-	132,379	
Abandoned development expenses	-	50,800	-	50,800	-	-	50,800	
Apartment leases	189	-	178,133	178,322	-	-	178,322	
Insurance	15,637	9,694	313	25,644	38,109	1,524	198,639	
Postage	-	139	-	139	2,468	756	59,667	
Printing and copying	618	747	-	1,365	722	5,816	7,670	
Professional fees	-	8,086	-	8,086	94,276	29,711	132,073	
Legal	-	-	-	-	9,030	-	9,030	
Accounting	766	-	-	766	15,446	-	16,212	
Occupancy/utilities	44,609	-	818	45,427	17,532	210	63,169	
Conferences and meetings	2,880	752	-	3,632	4,735	3,501	11,868	
Office supplies	6,600	1,990	16	8,606	6,192	26,868	41,666	
Telephone	23,969	352	-	24,321	11,151	127	35,599	
IT Support, maintenance and web site	9,701	5,968	-	15,669	28,327	11,668	40,800	
Rental, repairs and maintenance	65,877	2,837	1,561	70,275	6,714	-	55,664	
Dues and subscriptions	2,037	2,943	-	4,980	5,000	27	76,989	
Travel and entertainment	4,125	275	-	4,400	14,277	6,739	12,790	
Interest	-	-	-	-	627	-	14,554	
Depreciation	58,325	6,906	-	65,231	32,030	-	600	
Miscellaneous	12,124	2,691	1,830	16,645	10,629	17,983	97,261	
	1,538,990	803,699	204,177	2,546,866	548,768	199,164	42,918	
Clare Apartments & Clare Hiawatha rental operating expenses:								
Administrative	-	115,282	-	115,282	-	-	115,282	
Property management fee	-	55,926	-	55,926	-	-	30,244	
Maintenance and operating	-	270,041	-	270,041	-	-	186,243	
Utilities	-	108,323	-	108,323	-	-	108,323	
Property insurance	-	36,303	-	36,303	-	-	53,579	
Real estate taxes	-	72,840	-	72,840	-	-	16,935	
Interest expense	-	70,442	-	70,442	-	-	26,539	
Depreciation and amortization	-	358,818	-	358,818	-	-	30,504	
	\$ 1,538,990	\$ 1,891,674	\$ 204,177	\$ 3,634,841	\$ 548,768	\$ 199,164	\$ 4,382,773	
2012 allocation percentages	35%	42%	5%	82%	13%	5%	100%	

See accompanying notes to consolidated financial statements.

CLARE HOUSING

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

Increase (Decrease) in Cash and Cash Equivalents

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Change in net assets	\$ (403,321)	\$ (152,294)
Adjustments to reconcile the change in net assets to net cash from operating activities:		
Depreciation and amortization	456,079	324,918
Contributions for capital campaign	-	(118,401)
Amortization of deferred grants	(37,985)	(6,000)
Loss of disposal of property - insurance claim	10,158	-
Organization and start up expenses	49,626	-
Changes in operating assets and liabilities:		
Accounts receivable	(22,090)	(33,350)
Contributions receivable	(92,140)	4,910
Grants receivable	(16,107)	15,908
Prepaid expenses	14,881	12,993
Accounts payable	(3,243)	(2,559)
Accrued expenses	42,291	(23,046)
Accrued interest	(1,699)	14,706
Repayable advances	-	661
Tenant security deposits, net	745	3,430
Net cash from operating activities	<u>(2,805)</u>	<u>41,876</u>
Cash flows from investing activities:		
Sale of investments	-	241,859
Payments for property and equipment	(724,895)	(5,846,677)
Withdrawals from (additions to) reserves and escrows, net	(1,090,027)	23,600
Net cash from investing activities	<u>(1,814,922)</u>	<u>(5,581,218)</u>
Cash flows from financing activities:		
Proceeds from issuance of debt	-	4,914,148
Proceeds from deferred grant	-	860,670
Payments on notes payable	(2,125,893)	-
Contributions for capital campaign	-	118,401
Capital contributions	4,061,101	-
Payment of syndication costs	-	(67,965)
Payment of finance and tax credit fees	(3,089)	(144,616)
Net cash from financing activities	<u>1,932,119</u>	<u>5,680,638</u>
Net increase in cash and cash equivalents	114,392	141,296
Cash and cash equivalents at beginning of year	<u>583,346</u>	<u>442,050</u>
Cash and cash equivalents at end of year	<u>\$ 697,738</u>	<u>\$ 583,346</u>
Supplemental disclosures of cash flow information:		
Property and equipment additions included in accounts payables	<u>\$ -</u>	<u>\$ 542,839</u>
Cash paid for interest	<u>\$ 72,741</u>	<u>\$ 29,431</u>

See accompanying notes to consolidated financial statements.

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

1. ORGANIZATION

Clare Housing was incorporated as a Minnesota non-profit corporation in 1994. Its mission is to provide services, shelter and compassionate care to persons living with AIDS and HIV. Clare Housing has three programs as follows:

Foster Care - Clare Housing operates five adult foster care residences located in Ramsey and Hennepin Counties in Minnesota. Each foster care facility houses four adults and provides room and board, supportive services, and twenty-four hour supervision. Effective March 31, 2012, one foster care facility was closed when its lease was terminated. Clare Housing has announced that it will be closing another foster home in the upcoming year.

Supportive Services - The program provided at Clare Apartments and Clare Hiawatha includes twenty-four hour customized living services, supportive services, and twenty-four hour supervision.

Project Cornerstone - Clare Housing provides scattered site supportive housing throughout the Twin Cities metro area for households that meet the State of Minnesota's definition of Long Term Homelessness, with a target population of individuals and families that are living with HIV/AIDS.

The primary funding for Clare Housing is from resident fees for housing and supportive services. Resident fees include amounts paid by residents, Group Residential Housing and the Minnesota State Department of Health and Human Services Community Alternatives for Disabled Individuals (CADI) program. Approximately 55% and 52% of Clare Housing's 2012 and 2011 revenue and support is from this program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation Method - The consolidated financial statements include the accounts of Clare Housing, its wholly owned LLC's, and two limited partnerships in which Clare Housing or a wholly owned LLC is a general partner and exercises control (the Organization).

Limited partner capital is presented as a non-controlling interest in unrestricted net assets.

Clare Apartments, LLC is a wholly owned single member limited liability company. Clare Apartments, LLC owns a .01% general partner interest in Clare Apartments Limited Partnership (Clare Apartments). Clare Apartments is a 32-unit apartment complex in Minneapolis, Minnesota.

Clare Hiawatha, LLC is a wholly owned single member limited liability company. Clare Housing and Clare Hiawatha, LLC each own a .005% general partner interest in Clare Hiawatha Limited Partnership (Clare Hiawatha). Clare Hiawatha is a 45-unit apartment complex in Minneapolis, Minnesota. Construction began during 2010 and was completed in March 2011.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Tax credits from both partnerships have been sold to the National Equity Fund. Clare Housing has the right of first refusal to purchase Clare Apartments beginning in 2020. Clare Housing has the right of first refusal to purchase Clare Hiawatha beginning in 2026.

Clare Services LLC (Clare Services) is a wholly owned single member limited liability company. Clare Services was formed to provide supportive services to the residents of Clare Apartments and Clare Hiawatha.

All material inter-company accounts and transactions have been eliminated with the exception of developer fees that are paid from debt or capital contributions. The developer fees are recorded as revenue by Clare Housing and capitalized in limited partnership property and equipment.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation - Revenues and support are classified based on the presence or absence of donor restrictions and reported in the following net asset categories:

- Unrestricted net assets represent the portion of net assets that are not subject to donor restrictions.
- Temporarily restricted net assets arise from contributions that are restricted by donors for specific purposes or time periods.
- Permanently restricted net assets arise from contributions that the donor has stipulated must be maintained in perpetuity. Clare Housing does not have any permanently restricted net assets.

Concentration of Credit Risk - The Organization places its cash with two financial institutions, with one institution having multiple charters. At times the amount on deposit exceeds the insured limit of the institutions and exposes the Organization to a collection risk. The Organization has not experienced any losses as a result of these deposits.

Cash and Cash Equivalents - Cash and cash equivalents includes all cash accounts and temporary investments purchased with an original maturity of three months or less. Cash and cash equivalents consists of money market and checking accounts. Reserves and escrows are not considered to be cash equivalents.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounts Receivable - Accounts receivable are uncollateralized obligations stated at net realizable value. The carrying amount of accounts receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. As of June 30, 2012 and 2011, management has determined that no allowance is necessary.

Contributions Receivable - Contributions receivable are stated at the present value of their estimated future cash flows. The carrying amount of contributions receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. As of June 30, 2012 and 2011, management has determined that no allowance is necessary.

Sales Tax Rebate Receivable - Clare Hiawatha Limited Partnership is due a sales tax rebate on construction materials. The rebate was received in August 2012.

Finance Fees - Finance fees are amortized over the term of the related debt using the straight-line method.

Tax Credit Fees - Tax credit fees are amortized over 10 years using the straight-line method.

Property and Equipment - Property and equipment are carried at cost, with the exception of donated equipment, which is recorded at fair market value at date of gift. Depreciation of property and equipment is provided for on a straight-line basis over the estimated useful lives which range from: Buildings and Office Space, 39-40 years; Building Improvements, 10-39 years; Land Improvements, 10-15 years; and Furniture and Equipment, 3-9 years. The cost of maintenance and repairs is charged to income as incurred; significant renewals or betterments are capitalized.

The Organization reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. To date, no impairment of long-lived assets has been recorded.

Deferred Grants - Deferred grants includes forgivable loans and Section 1602 grants. The forgivable loans will be forgiven if there is no default. The forgivable loan will be recorded as revenue at the time the loan is forgiven.

Revenue from Section 1602 grants is deferred and recognized as revenue using the straight-line method over the estimated useful life (40 years).

Repayable Advances - Repayable advances consist of governmental funds received which may be repaid to the governmental agency, if certain conditions are not met. Upon meeting the conditions of the agreement the advances will be forgiven and revenue will be recognized.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Resident Fees – Resident fees are recorded as revenue at the time the service is provided. Resident fees include amounts paid by residents, Group Residential Housing and the Minnesota State Department of Health and Human Services Community Alternatives for Disabled Individuals (CADI) program.

Contributions - Contributions are recognized when the donor makes an unconditional promise to give. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the year in which the contribution is recognized.

Clare Housing implies a time restriction over the useful life of the asset on contributions restricted for the purchase of property and equipment. Therefore, net assets temporarily restricted for the purchase of property and equipment are released as depreciation expense is recorded for that asset.

Donated Materials - Donated materials are recorded as contributions, when received, at their estimated market value. There were no donated materials recorded in 2012 and 2011.

Contributed Services - Contributed services are recorded as contributions, at their fair value, when the service creates or enhances a non-financial asset or the service requires specialized skills that would need to be purchased if not provided by donation. There were no contributed services recorded in 2012 and 2011.

Government Grants and Contracts - Grants and contracts are recorded as revenues when the related costs are incurred. Amounts received prior to the cost being incurred are recorded as refundable advances.

Program Expenses - Program expenses represent various expenses incurred in providing the Organization's program services. These expenses include household supplies, medical supplies, food, transportation of residents and substitute caregivers.

Functional Expenses - Expenses have been allocated among program and supporting services classifications based upon direct expenditures when possible. Remaining expenses are allocated based on management estimates of employee work efforts and square footage.

Income Taxes - Clare Housing is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and is exempt from Minnesota income taxes under applicable Minnesota Statutes, except to the extent it has taxable income from businesses that are not related to its exempt purpose. Management believes Clare Housing did not have any unrelated business income in 2012 or 2011.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The limited liability companies are included in the income tax returns of Clare Housing.

The limited partnerships are not taxable entities. Income or losses are passed through to the partners.

The Organization is not currently under examination by any taxing jurisdiction. Federal and state tax authorities generally have the right to examine returns for a period of three years after they are filed.

Reclassifications – Reclassifications were made to the 2011 financial statements to be consistent with the current year financial statements. These reclassifications did not affect net assets or the change in net assets.

Comparative Total Column - The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2011, from which the summarized information was derived.

3. **RESERVES AND ESCROWS**

Certain partnership and loan agreements require that cash be escrowed for payment of real estate taxes, insurance, replacement reserves, revenue deficit reserves, lease-up reserves, and operating reserves.

4. **CONTRIBUTIONS RECEIVABLE**

Contributions receivable are due in the following years:

2013		\$ 35,694
2014		34,994
2015		34,994
2016		34,993
	Total contributions receivable	140,475
	Less discount to present value	(3,426)
Total		<u>\$ 137,049</u>

The discount rate used on contributions receivable was 1%. Amortization of the discount is recorded as contribution revenue.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

5. **OTHER ASSETS**

Other assets consist of the following:

	2012	2011	Amortization Term - Years
Finance fees	\$ 155,249	\$ 155,249	30
Tax credit fees	70,975	67,975	10
	<u>226,224</u>	<u>223,224</u>	
Accumulated amortization	<u>(63,271)</u>	<u>(41,262)</u>	
	<u>\$ 162,953</u>	<u>\$ 181,962</u>	

6. **PROPERTY AND EQUIPMENT - CLARE HOUSING**

Property and equipment - Clare Housing consists of the following:

	2012	2011
Land	\$ 126,100	\$ 126,100
Land improvements	43,924	40,079
Buildings	1,514,755	1,514,755
Building improvements	522,733	448,885
Furniture and equipment	252,769	247,784
Office space	520,382	514,852
	<u>2,980,663</u>	<u>2,892,455</u>
Less accumulated depreciation	<u>(787,867)</u>	<u>(699,258)</u>
	<u>\$ 2,192,796</u>	<u>\$ 2,193,197</u>

7. **PROPERTY AND EQUIPMENT - CLARE APARTMENTS**

Property and equipment - Clare Apartments consists of the following:

	2012	2011
Land	\$ 405,490	\$ 405,490
Land improvements	111,900	111,900
Building	4,864,674	4,854,233
Furniture and equipment	94,596	94,596
	<u>5,476,660</u>	<u>5,466,219</u>
Less accumulated depreciation	<u>(914,159)</u>	<u>(782,658)</u>
	<u>\$ 4,562,501</u>	<u>\$ 4,683,561</u>

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

8. **PROPERTY AND EQUIPMENT - CLARE HIAWATHA**

Property and equipment - Clare Hiawatha consists of the following:

	<u>2012</u>	<u>2011</u>
Land	\$ 736,098	\$ 736,098
Land improvements	180,871	176,000
Building	6,604,560	6,594,646
Furniture and equipment	141,709	141,708
	<u>7,663,238</u>	<u>7,648,452</u>
Less accumulated depreciation	<u>(268,767)</u>	<u>(63,733)</u>
	<u>\$ 7,394,471</u>	<u>\$ 7,584,719</u>

Interest of \$13,117 was capitalized and included in the cost of the building in 2011.

9. **DEFERRED GRANT - CLARE HOUSING**

In 1998, Clare Housing received a \$60,000 loan from the Minnesota Housing Finance Agency (MHFA) under the Housing Trust Fund Housing Program for Low Income Persons. If Clare Housing complies with the conditions of the agreement through March 31, 2018, the loan will be forgiven. The loan is repayable if there is an event of default in the first ten years. The amount due in the event of default in the eleventh through twentieth year decreases by 10% per year. The loan is being amortized to revenue in equal installments through 2018. The loan is secured by the property located at 2182 St. Clair in Saint Paul, Minnesota.

10. **DEFERRED GRANT - CLARE HIAWATHA**

Clare Hiawatha received a government grant under the Section 1602 Program in the amount of \$1,279,395. This grant is administered by the City of Minneapolis Community Planning and Economic Development Department (CPED).

The grant requires that Clare Hiawatha be used as low-income housing for a 15 year compliance period plus the extended use period for a total of 30 years. The grant is not repayable unless there is a recapture event during the 15 year compliance period ending in 2025. A recapture event takes place any time occupancy by low-income tenants falls below the required percentage. If a recapture event takes place, the full amount of the grant is repayable, less 1/15th for each full year the Project has complied with the prescribed occupancy requirements. The grant is being amortized to revenue over the estimated useful life of the building (40 years) through 2051. The grant is secured by a third mortgage on the Clare Hiawatha property.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

11. **REPAYABLE ADVANCES**

Repayable advances consists of the following:

	<u>2012</u>	<u>2011</u>
Grant from United States Department of Housing and Urban Development (HUD) under the Housing Opportunities for Persons with AIDS (HOPWA) program. If a default occurs before November 2015, repayment may be required or other action can be taken.	\$ 850,000	\$ 850,000
Grant from HUD under the Supportive Housing program. If Clare Apartments ceases to be used as supportive housing before August 2015, the entire amount is to be repaid. After 2015, HUD will reduce the amount required to be repaid by 10% for each year in excess of 10 years that the project is used as supportive housing.	400,000	400,000
Grant from the Federal Home Loan Bank. If Clare Apartments ceases to be used as supportive housing before August 2020, the entire amount is to be repaid.	<u>146,970</u>	<u>146,970</u>
	<u>\$ 1,396,970</u>	<u>\$ 1,396,970</u>

12. **DEBT - CLARE HOUSING**

Clare Housing has a note payable to the Minneapolis Community Planning & Economic Development (CPED) Agency in the amount of \$60,000 with interest at 1.0%. Principal and interest are due in full on April 28, 2019. Secured by Agape Dos House property.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

13. **DEBT - CLARE APARTMENTS**

Debt secured by the Clare Apartments apartment complex consists of the following:

	2012	2011
MHFA HOPWA loan	\$ 209,631	\$ 209,631
City of Minneapolis CDBG loan	435,000	435,000
HRA AHIF loan	425,000	425,000
MHFA HTF loan	220,000	220,000
FHF loan	100,000	100,000
City of Minneapolis note payable	90,000	90,000
	<u>\$ 1,479,631</u>	<u>\$ 1,479,631</u>

MHFA HOPWA Loan - Second mortgage payable to the MHFA under its Housing Opportunities for People with AIDS (HOPWA) Program in the original amount of \$209,631 dated December 16, 2004 without interest. Principal is due and payable in full on December 16, 2034.

City of Minneapolis CDBG Loan - Third mortgage payable to the CPED in the original amount of \$435,000 dated December 16, 2004, with simple interest at 1%. Principal and accrued interest is due and payable in full on December 16, 2034.

HRA AHIF Loan - Fourth mortgage payable to the Hennepin County Housing and Redevelopment Authority Affordable Housing Incentive Fund (AHIF) in the original amount of \$425,000 dated December 16, 2004, without interest. Principal is due and payable in full on December 16, 2034.

MHFA HTF Loan - Fifth mortgage payable to the MHFA under its Housing Trust Fund (HTF) Program in the original amount of \$220,000 dated December 16, 2004, without interest. Principal is due and payable in full on December 16, 2034.

FHF Loan - Sixth mortgage payable to the Family Housing Fund (FHF) in the original amount of \$100,000 dated December 16, 2004, without interest. Principal is due and payable in full on December 16, 2034.

City of Minneapolis note payable - Note payable to the City of Minneapolis in the original amount of \$90,000 dated November 30, 2005, with simple interest at 1%. Principal and accrued interest is due and payable in full on November 30, 2035.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

13. **DEBT - CLARE APARTMENTS (Continued)**

Maturities of debt - Clare Apartments are as follows:

2013 – 2033	\$ -
Thereafter	<u>1,479,631</u>
	<u>\$ 1,479,631</u>

Interest expense has been recorded using the stated rates of the various mortgage notes. Certain mortgage notes have stated interest rates which are less than the prevailing market rates. Interest on these mortgage notes has not been imputed because the rate is at the lender's or governmental agency's customary lending rate.

14. **DEBT - CLARE HIAWATHA**

Debt secured by the Clare Hiawatha apartment complex consists of the following:

	<u>2012</u>	<u>2011</u>
Bremer Bank	\$ -	\$ 2,125,893
CPED HOME	2,308,255	2,308,255
MHFA	480,000	480,000
Hennepin County HRA	<u>616,950</u>	<u>616,950</u>
	<u>\$ 3,405,205</u>	<u>\$ 5,531,098</u>

Bremer Bank – First mortgage payable to Bremer Bank in the original amount of \$2,500,000 dated May 6, 2010, with an interest rate of the greater of 5% or 1/4th percent in excess of the Bremer Financial Corporation Reference Rate as defined in the loan agreement. This note was paid off upon receipt of the second installment of the limited partner's capital contribution in January 2012.

CPED HOME – Second mortgage payable to CPED in the original amount of \$2,308,255 dated May 6, 2010, without interest. Principal is due and payable in full on May 6, 2040.

MHFA – Fourth mortgage payable to MHFA in the original amount of \$480,000 without interest. Principal is due and payable in full on May 6, 2040.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

14. **DEBT - CLARE HIAWATHA (Continued)**

Hennepin County HRA AHIF loan – Fifth mortgage payable to the Hennepin County Housing and Redevelopment Authority AHIF in the original amount of \$616,950 dated May 6, 2010, without interest. Principal is due and payable in full on May 6, 2040.

Maturities of debt - Clare Hiawatha are as follows:

2013 – 2039	\$ -
Thereafter	<u>3,405,205</u>
	<u><u>\$ 3,405,205</u></u>

Interest expense has been recorded using the stated rates of the various mortgage notes. Certain mortgage notes have stated interest rates which are less than the prevailing market rates. Interest on these mortgage notes has not been imputed because the rate is at the lender's or governmental agency's customary lending rate.

15. **LINE OF CREDIT**

Clare Housing has a line of credit with Bremer Bank for up to \$155,000 with a variable interest rate of 1 percentage point over the Prime rate as published by Bloomberg. Under no circumstances will the interest rate be less than 4.50%. Interest payments are due monthly. Principal and interest are due September 13, 2014. The line of credit is secured by all inventory, chattel paper, accounts, equipment, and general intangibles. At June 30, 2012, there is no outstanding balance on the line of credit.

16. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are for the following purposes:

	<u>2012</u>	<u>2011</u>
Contributions receivable time restricted	\$ 137,049	\$ 44,909
Clare Housing office space	423,543	436,744
Damiano bathroom / Agape boiler	13,976	15,232
Cash held for programs	<u>16,270</u>	<u>270</u>
	<u><u>\$ 590,838</u></u>	<u><u>\$ 497,155</u></u>

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

17. RETIREMENT PLAN

Clare Housing has a retirement plan under Section 403(b) of the Internal Revenue Code which provides for voluntary pre-tax employee contributions and discretionary employer contributions. Employees are eligible to participate in the plan upon hire. Employer contributions were \$26,361 and \$24,993 in 2012 and 2011, respectively.

18. COMMITMENTS AND CONTINGENCIES

Amounts received from grantor agencies are subject to audit and adjustment by grantor agencies. Any disallowed grant costs may constitute a liability. The amount, if any, of costs which may be disallowed by the grantor agencies will be recognized in the year determined.

As a general partner in limited partnerships, Clare Housing is contingently responsible for the obligations of the limited partnerships. The limited partnership agreements provides for various obligations of the general partner including its obligation to provide funds for operating deficits and a guaranty of housing tax credits.

During 2011, Clare Housing entered into a five-year contract with an organization to provide training workshops. The total amount payable under the contract is \$100,000 of which \$26,000 and \$14,000 was paid in 2012 and 2011, respectively. Either party may cancel the agreement by providing 30 days written notice.

During 2011, Clare Housing entered into a contract with an organization to provide Human Resources services. The fee is calculated based on Clare Housing's total payroll expense. The fee for 2012 and 2011 was approximately \$6,000 per month and may increase up to 3% each year. The contract expires December 31, 2013.

Clare Hiawatha and Clare Apartments' sole assets are the apartment complexes. Their operations are concentrated in the Minneapolis, Minnesota multifamily real estate market. In addition, they operate in a heavily regulated environment. Their operations are subject to rules and regulations of federal, state, and local governmental agencies. Changes in rules and regulations may occur with little notice or inadequate funding to pay for the costs to comply with a change.

Housing tax credits for the limited partnerships are contingent on their ability to maintain compliance with applicable sections of Internal Revenue Code Section 42. Failure to maintain compliance with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period, could result in recapture of previously taken tax credits plus interest. In addition, such potential noncompliance may require an adjustment to the contributed capital of the Limited Partner.

(Continued)

CLARE HOUSING

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

18. **COMMITMENTS AND CONTINGENCIES (Continued)**

Clare Apartment's Housing Assistance Payments (HAP) Contract with the Minneapolis Public Housing Agency expires in 2015. No assurance can be provided that this contract will be renewed upon its expiration or if renewed, at what terms. Approximately 62% of Clare Apartments' revenue is from the HAP contract.

Clare Apartments and Clare Hiawatha are subject to extended use agreements between the Partnerships and MHFA. The extended use period ends on December 31, 2034, for Clare Apartments and on December 31, 2040, for Clare Hiawatha.

19. **PROJECT CORNERSTONE LEASES**

Clare Housing has entered into grant agreements with MHFA under the Ending Long-Term Homelessness Initiative Fund. Under the agreements, Clare Housing will provide scattered site supportive housing for households that meet the State's definition of Long Term Homelessness, with a target population of individuals and families that are living with HIV/AIDS. In providing supportive housing, units are leased by Clare Housing and sub-let to the participants in the program. As of June 30, 2012, Clare Housing has entered into seventeen leases ranging from 1 to 12 months. Lease expense was \$178,322 for 2012 and \$198,639 for 2011. Future minimum lease payments due in 2013 are \$62,775.

20. **SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 13, 2012, the date which the financial statements were available for issue, and identified no significant events or transactions to disclose.

SUPPLEMENTARY INFORMATION

CLARE HOUSING

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

June 30, 2012

	Clare Housing	Clare Apartments	Clare Hiawatha	Eliminations	Total
ASSETS					
Cash and cash equivalents	\$ 620,186	\$ 21,001	\$ 56,551	\$ -	\$ 697,738
Reserves and escrows	-	498,627	1,083,998	-	1,582,625
Accounts receivable	223,199	5,537	14,679	-	243,415
Contributions receivable, net	137,049	-	-	-	137,049
Grants receivable	29,730	-	-	-	29,730
Sales tax rebate receivable	-	-	169,560	-	169,560
Prepaid expenses	57,254	2,033	68,117	-	127,404
Notes receivable	1,436,970	-	-	(1,436,970)	-
Interest receivable	164,991	-	-	(164,991)	-
Other assets, net	-	49,135	113,818	-	162,953
Investment in Partnerships	104,650	-	-	(104,650)	-
Due from Partnerships	141,257	-	-	(141,257)	-
Property and equipment, net - Clare Housing	2,192,796	-	-	-	2,192,796
Property and equipment, net - Clare Apartments	-	4,562,501	-	-	4,562,501
Property and equipment, net - Clare Hiawatha	-	-	7,394,471	-	7,394,471
Total assets	\$ 5,108,082	\$ 5,138,834	\$ 8,901,194	\$ (1,847,868)	\$ 17,300,242
LIABILITIES AND NET ASSETS					
Accounts payable	\$ 28,815	\$ 3,872	\$ 5,263	\$ -	\$ 37,950
Accrued expenses	120,301	32,330	61,513	-	214,144
Accrued interest	7,836	202,325	-	(164,991)	45,170
Due to Clare Housing	-	81,123	60,134	(141,257)	-
Deferred grants - Clare Housing	36,000	-	-	-	36,000
Deferred grant - Clare Hiawatha	-	-	1,247,410	-	1,247,410
Repayable advances	1,396,970	-	-	-	1,396,970
Tenant security deposits	-	9,304	12,959	-	22,263
Debt - Clare Housing	60,000	-	-	-	60,000
Debt - Clare Apartments	-	2,876,601	-	(1,396,970)	1,479,631
Debt - Clare Hiawatha	-	-	3,445,205	(40,000)	3,405,205
Total liabilities	1,649,922	3,205,555	4,832,484	(1,743,218)	7,944,743
Net assets:					
Unrestricted net assets:					
Controlling interest	2,867,322	74,538	29,958	(104,650)	2,867,168
Non-controlling interests	-	1,858,741	4,038,752	-	5,897,493
Total unrestricted net assets	2,867,322	1,933,279	4,068,710	(104,650)	8,764,661
Temporarily restricted net assets	590,838	-	-	-	590,838
Total net assets	3,458,160	1,933,279	4,068,710	(104,650)	9,355,499
Total liabilities and net assets	\$ 5,108,082	\$ 5,138,834	\$ 8,901,194	\$ (1,847,868)	\$ 17,300,242

See independent auditor's report.

CLARE HOUSING

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	Clare Housing		Clare Apartments	Clare Hiawatha	Eliminations	Total
	Unrestricted	Temporarily restricted				
Revenues and support:						
Resident fees	\$ 2,203,404	\$ -	\$ -	\$ -	\$ -	\$ 2,203,404
Rental revenues	-	-	264,532	376,222	(148,991)	491,763
Contributions	205,769	183,299	-	-	-	389,068
Government grants and contracts	476,061	-	-	-	-	476,061
Amortization of deferred grants	6,000	-	-	31,985	-	37,985
Developer fee	300,000	-	-	-	-	300,000
Partnership management fees	16,162	-	-	-	(16,162)	-
Interest income	27,576	-	101	55	(27,058)	674
Other income	7,372	-	4,494	9,544	-	21,410
Net assets released from restrictions	89,616	(89,616)	-	-	-	-
Total revenues and support	3,331,960	93,683	269,127	417,806	(192,211)	3,920,365
Expenses:						
Program services:						
Foster care	1,538,990	-	-	-	-	1,538,990
Supportive services	952,690	-	412,322	718,873	(192,211)	1,891,674
Project Cornerstone	204,177	-	-	-	-	204,177
Total program services	2,695,857	-	412,322	718,873	(192,211)	3,634,841
Management and general	548,768	-	-	-	-	548,768
Fundraising	199,164	-	-	-	-	199,164
Total expenses	3,443,789	-	412,322	718,873	(192,211)	4,382,773
Change in net assets before proceeds from insurance claim	(111,829)	93,683	(143,195)	(301,067)	-	(462,408)
Gain from insurance claim, net	59,087	-	-	-	-	59,087
Change in net assets	(52,742)	93,683	(143,195)	(301,067)	-	(403,321)
Net assets, beginning of year	2,920,064	497,155	2,076,474	308,676	(104,650)	5,697,719
Capital contributions - non-controlling interests	-	-	-	4,061,101	-	4,061,101
Net assets, end of year	\$ 2,867,322	\$ 590,838	\$ 1,933,279	\$ 4,068,710	\$ (104,650)	\$ 9,355,499
Reconciliation of net assets:						
Non-controlling interests:						
Beginning of the year	\$ -	\$ -	\$ 2,001,922	\$ 278,688	\$ -	\$ 2,280,610
Capital contributions	-	-	-	4,061,101	-	4,061,101
Change in net assets	-	-	(143,181)	(301,037)	-	(444,218)
End of year	\$ -	\$ -	\$ 1,858,741	\$ 4,038,752	\$ -	\$ 5,897,493
Controlling interests:						
Beginning of the year	\$ 2,920,064	\$ 497,155	\$ 74,552	\$ 29,988	\$ (104,650)	\$ 3,417,109
Change in net assets	(52,742)	93,683	(14)	(30)	-	40,897
End of year	\$ 2,867,322	\$ 590,838	\$ 74,538	\$ 29,958	\$ (104,650)	\$ 3,458,006

See independent auditor's report.

CLARE HOUSING

CONSOLIDATING STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

Increase (Decrease) in Cash and Cash Equivalents

	Clare Housing	Clare Apartments	Clare Hiawatha	Eliminations	Total
Cash flows from operating activities:					
Change in net assets	\$ 40,941	\$ (143,195)	\$ (301,067)	\$ -	\$ (403,321)
Adjustments to reconcile the change in net assets to net cash from operating activities:					
Depreciation and amortization	97,261	136,155	222,663	-	456,079
Amortization of deferred grants	(6,000)	-	(31,985)	-	(37,985)
Loss on disposal of property - insurance claim	10,158	-	-	-	10,158
Organization and start up expenses	-	-	49,626	-	49,626
Changes in operating assets and liabilities:					
Accounts receivable	(20,433)	(8,417)	(939)	7,699	(22,090)
Contributions receivable	(92,140)	-	-	-	(92,140)
Grants receivable	(16,107)	-	-	-	(16,107)
Interest receivable	(27,058)	-	-	27,058	-
Due from limited partnerships	206,211	-	-	(206,211)	-
Prepaid expenses	2,531	(642)	12,992	-	14,881
Accounts payable	478	(3,684)	(37)	-	(3,243)
Accrued expenses	7,856	1,337	44,586	(11,488)	42,291
Accrued interest	600	33,614	(8,855)	(27,058)	(1,699)
Repayable advances	-	-	-	-	-
Tenant security deposits, net	-	300	445	-	745
Net cash from operating activities	<u>204,298</u>	<u>15,468</u>	<u>(12,571)</u>	<u>(210,000)</u>	<u>(2,805)</u>
Cash flows from investing activities:					
Payments for property and equipment	(107,018)	(10,441)	(817,436)	210,000	(724,895)
Due from limited partnerships	-	-	-	-	-
Withdrawals from (additions to) reserves and escrows, net	-	(15,484)	(1,074,543)	-	(1,090,027)
Net cash from investing activities	<u>(107,018)</u>	<u>(25,925)</u>	<u>(1,891,979)</u>	<u>210,000</u>	<u>(1,814,922)</u>
Cash flows from financing activities:					
Payments on notes payable	-	-	(2,125,893)	-	(2,125,893)
Payment of accrued developer fee	-	-	-	-	-
Capital contributions	-	-	4,061,101	-	4,061,101
Payment of finance and tax credit fees	-	-	(3,089)	-	(3,089)
Net cash from financing activities	<u>-</u>	<u>-</u>	<u>1,932,119</u>	<u>-</u>	<u>1,932,119</u>
Net increase (decrease) in cash and cash equivalents	97,280	(10,457)	27,569	-	114,392
Cash and cash equivalents at beginning of year	<u>522,906</u>	<u>31,458</u>	<u>28,982</u>	<u>-</u>	<u>583,346</u>
Cash and cash equivalents at end of year	<u>\$ 620,186</u>	<u>\$ 21,001</u>	<u>\$ 56,551</u>	<u>\$ -</u>	<u>\$ 697,738</u>

See independent auditor's report.